

RESOLUTION NO. RA _____

**RESOLUTION OF THE REDEVELOPMENT AGENCY
OF THE CITY OF MILPITAS ADOPTING FINDINGS
AND AUTHORIZING EXECUTION OF A SUBORDINATION
AGREEMENT FOR THE MP MILPITAS AFFORDABLE
HOUSING ASSOCIATES PROJECT**

WHEREAS, in December 2005, the Redevelopment Agency of the City of Milpitas (the "Agency") authorized the execution of a Disposition and Development Agreement ("DDA") and the provision of financing to MP Milpitas Affordable Housing Associates, a California limited partnership affiliated with Mid-Peninsula Housing Coalition, (the "Developer") to develop a 103- unit affordable senior housing project (the "Project") at 163 North Main Street in the City of Milpitas (the "Property"); and

WHEREAS, the financing for the Project includes a \$14.6 million loan (the "Agency Loan") to be funded with \$9.6 million from Agency low- and moderate-income housing set-aside funds and \$5 million provided by KB Homes South Bay, Inc., and a \$1 million grant (the "Grant") funded by the County of Santa Clara in connection with the KB Home Elmwood Project; and

WHEREAS, the California Municipal Finance Authority, a joint exercise of powers agency ("CMFA") will issue bonds in the amount of \$17,000,000 to finance the Project, and CMFA has assigned its rights under the bond documents to U.S. Bank National Association, a national banking association ("Lender") which will purchase the bonds and provide construction and permanent financing for the Project; and

WHEREAS, the Lender has asked the Agency to subordinate certain documents (the "Agreements") executed in connection with the Agency Loan and the conveyance of the Property as more particularly set forth in the proposed Subordination Agreement, and has indicated that it is unwilling to provide construction and permanent financing for the Project without such subordination; and

WHEREAS, the Developer has indicated that it has been unable to find alternate sources that would enable it to finance the Project without such subordination; and

WHEREAS, Health and Safety Code Section 33334.14 permits subordination of redevelopment agency affordability restrictions provided that: (i) the agency makes a finding that alternative financing is not reasonably available on economically feasible terms without subordination, and (ii) the agency obtains written commitments to protect its investment in the event of a default; and

WHEREAS, the proposed Subordination Agreement provides the Agency with rights to receive notice and to cure defaults arising under the senior loan documents, to purchase the senior loan in the event of default, and to request the transfer of the Property and the assumption of the senior loan by the Agency or by another approved developer; and

WHEREAS, the proposed Subordination Agreement provides that Agency consent would be required for any amendment to the senior documents that would increase the amount, the interest rate or the term of the of the senior loan; and

WHEREAS, following completion of construction and the issuance of a certificate of occupancy for the Project, the principal balance of the senior loan will be reduced to the sum of approximately \$1.5

million following receipt of tax credit equity contributions from Project investors.

NOW, THEREFORE, BE IT RESOLVED that the Redevelopment Agency of the City of Milpitas hereby:

Section 1. Finds that without subordination of the Agreements an economically feasible alternative for financing the Project is not reasonably available and that the terms of the Subordination Agreement provide the Agency with reasonable means of protecting the Agency's investment in the Project in the event of default.

Section 2. Authorizes the Agency Executive Director or his designee to execute the Subordination Agreement substantially in the form on file with the City Clerk and to take such other actions reasonably necessary to carry out the intent of this Resolution.

PASSED AND ADOPTED this _____ day of _____, 2006, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

ATTEST:

APPROVED:

Mary Lavelle, Agency Secretary

Jose S. Esteves, Chairperson

APPROVED AS TO FORM:

Steven T. Mattas, Agency Counsel

WHEN RECORDED MAIL TO:

DLA Piper Rudnick Gray Cary LLP
550 South Hope Street, Suite 2300
Los Angeles, California 90071
Attention: Mark L. Nelson, Esq.

(SPACE ABOVE FOR RECORDER'S USE)

SUBORDINATION AGREEMENT

NOTICE: THIS SUBORDINATION AGREEMENT RESULTS IN THE ESTATES IN THE PROPERTY BECOMING SUBJECT TO AND OF LOWER PRIORITY THAN THE LIEN OF SOME OTHER OR LATER SECURITY INSTRUMENT.

THIS SUBORDINATION AGREEMENT ("Agreement") is made as of August 1, 2006, by and among MP MILPITAS AFFORDABLE HOUSING ASSOCIATES, a California Limited Partnership ("Owner"), REDEVELOPMENT AGENCY OF THE CITY OF MILPITAS, a public body corporate and politic ("Junior Lienholder"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association, in its capacity as agent (in such capacity, "Agent") for the CALIFORNIA MUNICIPAL FINANCE AUTHORITY, a joint exercise of powers agency duly organized and validly existing under the laws of the State of California ("Issuer") under and pursuant to the Master Agency Agreement dated as of August 1, 2006, between the Issuer and Agent ("Agency Agreement"), (Issuer and its successors in interest in and to this Agreement acting through Agent during the term of Agent's agency and acting on their own behalf or through other agents thereafter, are referred to herein as "Senior Lienholder").

RECITALS

A. Owner owns (i) certain real estate more particularly described on Exhibit "A", and all improvements now or hereafter located thereon (collectively, the "Real Property"), and (ii) that certain personal property more particularly described in the Senior Loan Documents (the "Personal Property"; together with the Real Property, the "Property").

B. Each of the documents listed on Exhibit "B" shall be referred to collectively as the "Junior Obligation Documents."

C. As used herein, the term "Junior Obligations" means, collectively, (i) any and all indebtedness, claims, debts, liabilities or other obligations from Owner to Junior Lienholder under the Junior Obligation Documents and/or (ii) the "Subordinated DDA Provisions" (as defined below), together with all costs and expenses, including attorneys' fees, of collection thereof, whether the same accrues or is incurred before or after the commencement of any bankruptcy case by or against Owner.

D. Owner and Junior Lienholder desire that Senior Lienholder and Owner enter into that certain Loan Agreement dated as of August 1, 2006 ("Senior Loan Agreement"), pursuant to which Senior Lienholder has agreed to make a loan to Owner in the aggregate principal amount of \$17,000,000 (the "Senior Loan") in accordance with the terms and conditions set forth in the Senior Loan Agreement. Owner's obligations to Senior Lienholder under the Senior Loan Agreement are evidenced by one or more promissory notes (collectively, the "Senior Note") executed by Owner in favor of Senior Lienholder, in the aggregate principal amount of \$17,000,000. Owner's obligations to Senior Lienholder under the Senior Loan Agreement are secured by, among other things, (i) that certain Construction to Permanent Deed of Trust with Assignment of Leases and Rents, Security Agreement and Fixture Filing ("Senior Deed of Trust"), dated as of August 1, 2006, made by Owner for the benefit of Senior Lienholder and (ii) the Loan Documents described in the Senior Loan Agreement. The Senior Deed of Trust is being recorded substantially concurrently herewith in the Official Records of the County of Santa Clara, State of California ("Official Records"). The Senior Deed of Trust, the Regulatory Agreement (as defined in the Senior Loan Agreement), the Security Documents, the Senior Loan Agreement and the other Loan Documents (as defined in the Senior Loan Agreement) are hereinafter collectively referred to as the "Senior Loan Documents."

E. As used herein, the term "Senior Lienholder Indebtedness" means any and all indebtedness, claims, debts, liabilities or other obligations from Owner to Senior Lienholder under the Senior Loan Documents, together with all interest accruing thereon and all costs and expenses, including attorneys' fees, of collection thereof, whether the same accrues or is incurred before or after the commencement of any bankruptcy case by or against Owner.

F. Pursuant to the Senior Deed of Trust and the other Senior Loan Documents, Owner is not entitled to further encumber the Property without the prior written consent of Senior Lienholder, which consent may be withheld in Senior Lienholder's sole discretion.

G. It is a condition precedent to Senior Lienholder to entering into the Senior Loan Documents and permitting the recordation of any of the Junior Obligation Documents that the Senior Deed of Trust and the other Senior Loan Documents be and remain at all times a lien or charge upon the Property, prior and superior to the liens or charges of the Junior Obligation Documents and the Subordinated DDA Provisions.

H. Senior Lienholder is willing to permit the recordation of the recordable Junior Obligation Documents, provided that (1) the Senior Deed of Trust and the other Senior Loan Documents are a lien or charge upon the Property prior and superior to the liens or charges of the Junior Obligation Documents and the Subordinated DDA Provisions, and (2) Junior Lienholder will specifically subordinate the liens or charges of the Junior Obligation Documents and the Subordinated DDA Provisions to the lien or charge of the Senior Deed of Trust and the other Senior Loan Documents.

I. Junior Lienholder is willing that the Senior Deed of Trust shall constitute a lien or charge upon the Property which is prior and superior to the liens or charges of the Junior Obligation Documents and the Subordinated DDA Provisions. The parties hereto enter into this Agreement for the purposes set forth in these Recitals.

J. Capitalized terms used herein and not otherwise defined shall have the meanings set forth for them in the Senior Loan Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual benefits accruing to the parties hereto and other valuable consideration, the receipt and sufficiency of which consideration is hereby acknowledged, and in order to induce Senior Lienholder to make the "Loan" described in the Senior Loan Agreement, it is hereby declared, understood, and agreed as follows:

1. **Subordination.** The Regulatory Agreement (as defined in the Loan Agreement), the Senior Deed of Trust in favor of Senior Lienholder, and, subject to Section 4, below, all amendments, modifications, extensions and renewals thereof, shall unconditionally be and remain at all times a lien or charge on the Property prior and superior to the lien or charge of (i) the Junior Obligation Documents, and (ii) the Subordinated DDA Provisions. Junior Lienholder intentionally and unconditionally subordinates the lien or charge of the Junior Obligation Documents and the Subordinated DDA Provisions in favor of the lien or charge upon said land of the Senior Deed of Trust in favor of Senior Lienholder, and understands that in reliance upon and in consideration of this subordination, specific loans and advances are being and will be made and, as part and parcel thereof, specific monetary and other obligations are being and will be entered into which would not be made or entered into but for said reliance upon this subordination. As used in this Agreement, the following provisions from that certain Disposition and Development Agreement ("DDA") dated as of December 5, 2005, executed by and between Junior Lienholder and Owner shall be referred to herein as the "Subordinated DDA Provisions":

The last clause of the last sentence of Section 1.3.5, any indemnity contained in Section 4.1, Section 4.4.2, Sections 5.1 through 5.7, inclusive, any requirement in Section 5.9 to actually construct the Project, Section 5.10, Section 5.11, Sections 5.13 through 5.16, inclusive, Article VI (except Section 6.4.2 and Section 6.6), Article VII, Sections 8.1 through 8.7, inclusive, Article IX, Sections 10.6 through 10.8, inclusive, Section 11.18, Section 11.19, Exhibit D, Sections 2(i) and 3(i) of Exhibit G and any requirement to expressly assume any of these Subordinated DDA Provisions set forth in Section 3(ii) of Exhibit G.

Nothing herein is intended to or shall operate as a waiver of the requirements of applicable law.

2. **Only Agreement Regarding Subordination.** Senior Lienholder would not permit the recordation of any Junior Obligation Documents without this Agreement. This Agreement shall be the whole and only agreement with regard to the subordination of the lien or charge of the Junior Obligation Documents and the Subordinated DDA Provisions to the lien or charge of the Senior Deed of Trust and shall supersede and cancel, but only insofar as would affect the priority between said deeds of trust and said covenants, conditions and restrictions, any prior agreements as to such subordination, including, but not limited to, those provisions, if any,

contained in the Junior Obligation Documents and the Subordinated DDA Provisions which provide for the subordination of the lien or charge thereof to another deed or deeds of trust or to another mortgage or mortgages.

3. Loan Disbursements. In making disbursements pursuant to any of the Senior Loan Documents, Senior Lienholder is under no obligation or duty to, nor has Senior Lienholder represented that it will, see to the application of such proceeds by the person or persons to whom Senior Lienholder disburses such proceeds, and any application or use of such proceeds for purposes other than those provided for in such Senior Loan Document(s) shall not defeat the subordination herein made in whole or in part.

4. Consent and Approval. Junior Lienholder has received and consents to and approves the Senior Loan Documents, including but not limited to any extension, modification and/or amendment of said agreements, between Owner and Senior Lienholder. Notwithstanding the foregoing, Owner and Senior Lienholder shall not, without Junior Lienholder's prior written consent, enter into any amendment of the Senior Loan Documents which would (i) increase the principal amount of the Senior Loan, (ii) increase the interest rate accruing on the principal of the Senior Loan other than as currently provided for in the Senior Note or the other Senior Loan Documents, (iii) extend the outside maturity date of Note A (as defined in the Senior Loan Agreement) beyond August 1, 2038 or (iv) extend the outside maturity date of Note B (as defined in the Senior Loan Agreement) beyond August 1, 2009; provided, however, that nothing contained herein shall limit the rights of Senior Lienholder to make protective advances or limit such protective advance amounts being secured by the Senior Loan Documents or the ability of the Senior Lienholder to realize therefor. No decision by Junior Lienholder to review or not review the Senior Loan Documents, including but not limited to the disbursement provisions contained therein, shall impair or otherwise limit the enforceability of this Agreement.

5. Assignment. Upon completion of the Project and the issuance of the Certificate of Occupancy for the Project, Junior Lienholder will fund the final disbursement of the outstanding Junior Loan proceeds to an escrow, which will then be disbursed by escrow directly to Bank for the application to the amounts owing under the Senior Loan Documents. Owner assigns such disbursement to Senior Lienholder and Junior Lienholder agrees to make such disbursement to Senior Lienholder, through escrow, so long as (i) no payment default then exists under the Junior Obligation Documents which has not been cured by either Owner or Senior Lienholder pursuant to the terms hereunder, and (ii) if Senior Lienholder has previously foreclosed under the Senior Deed of Trust, Senior Lienholder acknowledges that the Junior Affordable Housing Agreement will, notwithstanding the foreclosure under the Senior Deed of Trust, continue in full force and effect. Subject to the limitations set forth above, Owner hereby assigns to Senior Lienholder, as additional security for Owner's obligations to Senior Lienholder under the Senior Loan Documents, all of Owner's right, title and interest in, to and under: (a) the Junior Loan (including, without limitation, all advances and proceeds of the Junior Loan), (b) the Junior Obligation Documents, (c) all amendments, modifications, extensions, renewals and substitutions of, to or for the foregoing, and (d) all proceeds of the foregoing, whether voluntary or involuntary (all of the foregoing, collectively, the "Junior Loan Collateral"). Subject to the limitations set forth above, Junior Lienholder and Owner acknowledge and agree that upon the occurrence of an Event of Default under the Senior Loan Agreement, Senior Lienholder, among other things, may (a) exercise all rights and remedies available to Senior Lienholder under the

Senior Loan Documents, or at law or in equity, including, but not limited to, all rights and remedies available to a secured party under the California Commercial Code, and/or (b) exercise all rights of Owner under, or in connection with, the Junior Obligation Documents.

6. Other Agreements. Junior Lienholder and Owner declare, agree, and acknowledge that:

6.1 Subordination of Indebtedness. Any and all Junior Obligations are hereby subordinated and subject to any and all Senior Lienholder Indebtedness, as set forth herein.

6.2 Permitted Payments. Owner may make payments under the Junior Obligation Documents, if required, as long as all payments under the Senior Deed of Trust and the other Senior Loan Documents are current and not delinquent or in arrears, and only so long as at the time of such payment: (i) no default under the Senior Lienholder Indebtedness exists and no event exists which, with the lapse of time or the giving of notice or both, would be an event of default under the Senior Lienholder Indebtedness of which Junior Lienholder has received notice; and (ii) such payment would not result in a violation of any of Owner's financial covenants set forth in any of the documents evidencing the Senior Lienholder Indebtedness ("Permitted Payments").

6.3 Payment Subordination. Except for any Permitted Payments, (a) all of the Senior Lienholder Indebtedness now or hereafter existing shall be first paid in full by Owner before any payment shall be made by Owner on the Junior Obligations, and (b) this priority of payment shall apply at all times until all of the Senior Lienholder Indebtedness has been repaid in full. In the event of any assignment by Owner for the benefit of Owner's creditors, or any bankruptcy proceedings instituted by or against Owner, or the appointment of any receiver for Owner or Owner's business or assets, or of any dissolution or other winding up of the affairs of Owner or of Owner's business, and in all such cases respectively, Owner's officers and any assignee, trustee in bankruptcy, receiver and other person or persons in charge are hereby directed to pay to Senior Lienholder the full amount of the Senior Lienholder Indebtedness before making any payments to Junior Lienholder due under the Junior Obligations.

6.4 Return of Prohibited Payments. Except as otherwise expressly agreed to herein, if Junior Lienholder shall receive any payments or other rights in any property of Owner in connection with the Junior Obligations in violation of this Agreement, such payment or property shall immediately be delivered and transferred to Senior Lienholder after notice to Junior Lienholder.

6.5 Repayment of Senior Lienholder Indebtedness. This Agreement shall remain in full force and effect until all Senior Lienholder Indebtedness is fully repaid in accordance with its terms and all of the terms of this Agreement have been complied with.

7. Senior Lienholder Agreements.

7.1 Senior Lienholder agrees that it shall not complete a foreclosure sale of the Property or record a deed-in-lieu of foreclosure with respect to the Property (each, a "Foreclosure Remedy") unless Junior Lienholder has first been given ninety (90) days written notice of the Event(s) of Default giving Senior Lienholder the right to complete such Foreclosure

Remedy, and unless Junior Lienholder has failed, within such ninety (90) day period, to cure such Event(s) of Default; provided, however, that Senior Lienholder shall be entitled during such ninety (90) day period to continue to pursue all of its rights and remedies under the Senior Loan Documents, including, but not limited to, acceleration of the Senior Loan (subject to any de-acceleration provisions specifically set forth below or in the Senior Loan Documents), commencement and pursuit of a judicial or non-judicial foreclosure (but not completion of the foreclosure sale), appointment of a receiver, enforcement of any guaranty (subject to any notice and cure provisions contained therein), and/or enforcement of any other Senior Loan Document. In the event Senior Lienholder has accelerated the Senior Loan and Junior Lienholder cures all Events of Default giving rise to such acceleration within the ninety (90) day cure period described above, Senior Lienholder shall rescind any Notice of Default and shall de-accelerate the Senior Loan; provided, however, that such de-acceleration shall not waive or limit any of Senior Lienholder's rights to accelerate the Senior Loan or exercise any other remedies under the Senior Loan Documents as to any future or continuing Events of Default. If the Note is de-accelerated pursuant to the previous sentence, Junior Lienholder may request Senior Lienholder's consent to the transfer of the Property to Junior Lienholder or to another reputable developer selected by Junior Lienholder and approved by Senior Lienholder, in Senior Lienholder's sole and absolute discretion, and the assumption of Owner's obligations under the Senior Loan. If Senior Lienholder approves Junior Lienholder's request, as determined in Senior Lienholder's sole and absolute discretion, Junior Lienholder (or such other transferee, if any, approved by Senior Lienholder, in Senior Lienholder's sole and absolute discretion) shall execute such transfer and assumption documents as Senior Lienholder may require, the form and substance of which shall be in Senior Lienholder's sole discretion. It is the express intent of the parties hereunder that Senior Lienholder shall have the right to pursue all rights and remedies except completion of a Foreclosure Remedy without liability to Junior Lienholder for failure to provide timely notice to Junior Lienholder required hereunder, and that Senior Lienholder's liability hereunder shall be expressly limited to actual and consequential damages to Junior Lienholder directly caused by Senior Lienholder's completion of a Foreclosure Remedy without Junior Lienholder receiving the notice and opportunity to cure described above. Senior Lienholder shall give Junior Lienholder notice at the address set forth below or such other address as Junior Lienholder may instruct Senior Lienholder in writing from time to time:

Redevelopment Agency of the City of Milpitas
455 East Calveras
Milpitas, California 95035
Attention: Executive Director

Nothing contained in the Senior Deed of Trust shall constitute a waiver of any right or remedy granted to Junior Lienholder under Sections 7.1 and 7.2, including the right to cure defaults by the Borrower under the Senior Loan Documents. In the event of any conflict between the Senior Deed of Trust and this Agreement regarding any notice to the Junior Lienholder, solely in its capacity as the holder of the Junior Obligation Documents, the terms of this Agreement shall control. Nothing contained herein shall constitute a waiver of any rights Junior Lienholder has as a junior lienholder generally under California law.

7.2 Junior Lienholder shall also have the right, during the ninety (90) day cure period described in Section 7.1, above, to elect, by delivering irrevocable written notice

("Election Notice") of its election to Senior Lienholder, to purchase the Loan from Senior Lienholder for a purchase price ("Senior Loan Purchase Price") equal to the sum of (i) the outstanding principal balance of the Senior Loan on the Closing Date (as defined below), plus (ii) all accrued and unpaid interest on the Senior Loan through and including the Closing Date, plus (iii) all other accrued and unpaid fees, costs and expenses payable by Borrower under the Senior Loan Documents, plus (iv) all costs and expenses incurred by Senior Lienholder in connection with the sale of the Senior Loan to Junior Lienholder. The sale of the Senior Loan by Senior Lienholder to Junior Lienholder under this Section shall be made (a) without recourse, representation or warranty by Senior Lienholder of any kind, express or implied, and (b) close on the date ("Closing Date") which is thirty (30) days after Junior Lienholder gives the Election Notice to Senior Lienholder. On the Closing Date, Junior Lienholder shall pay to Senior Lienholder, in immediately available funds and lawful monies of the United States of America, the Senior Loan Purchase Price. Junior Lienholder shall give Senior Lienholder the notice required under this Section 7.2 in accordance with the Senior Loan Agreement.

8. Bankruptcy Provisions. To the extent any payment under any Senior Loan Document (whether by or on behalf of Owner, as proceeds of security or enforcement of any right of set-off, or otherwise) is declared to be fraudulent or preferential, set aside or required to be paid to a trustee, receiver or other similar party under the Bankruptcy Code or any federal or state bankruptcy, insolvency, receivership or similar law, then if such payment is recovered by, or paid over to, such trustee, receiver or other similar party, the Senior Indebtedness or part thereof originally intended to be satisfied shall be deemed to be reinstated and outstanding as if such payment had not occurred.

9. Casualty Insurance Proceeds; Condemnation Proceeds. In the event Senior Lienholder shall release, for the purposes of restoration of all or any part of the improvements, its right, title and interest in and to the proceeds under policies of insurance thereon, and/or its right, title and interest in and to any awards, or its right, title and interest in and to other compensation made for any damages, losses or compensation for other rights by reason of a taking in eminent domain, Junior Lienholder shall simultaneously release (and hereby agrees that it shall be irrevocably and unconditionally deemed to have agreed to release) for such purpose all of Junior Lienholder's right, title and interest, if any, in and to all such insurance proceeds, awards or compensation. Junior Lienholder agrees that the balance of such proceeds remaining after such restoration, or all of such proceeds in the event Senior Lienholder elects, in accordance with California law, not to release any such proceeds for any such restoration, shall be applied to the payment of amounts due under the Senior Loan Documents until all such amounts have been paid in full, prior to being applied to the payment of any amounts due under the Junior Obligation Documents or the Subordinated DDA Provisions. If Senior Lienholder holds such proceeds, awards or compensation and/or monitors the disbursement thereof, Junior Lienholder agrees that Senior Lienholder may also elect, in its sole and absolute discretion, to hold and monitor the disbursement of such proceeds, awards and compensation to which Junior Lienholder is or may be entitled. Nothing contained in this Agreement shall be deemed to require Senior Lienholder, in any way whatsoever, to act for or on behalf of Junior Lienholder or to hold or monitor any proceeds, awards or compensation in trust for or on behalf of Junior Lienholder, and all or any of such sums so held or monitored may be commingled with any funds of Senior Lienholder.

10. Effect of Other Agreements. The relationship between Owner and Senior Lienholder under the Senior Loan Documents is, and shall at all times remain, solely that of borrower and lender. Based thereon, Junior Lienholder acknowledges and agrees that Senior Lienholder neither undertakes nor assumes any fiduciary responsibility or other responsibility or duty to Owner or Junior Lienholder to guarantee or assist in Owner's or Junior Lienholder's performance under any of the agreements between those parties and other third parties, including without limitation the Junior Obligation Documents or the Subordinated DDA Provisions.

11. Miscellaneous. This Agreement may be executed in multiple counterparts and the signature page(s) and acknowledgment(s) assembled into one original document for recordation, and the validity hereof shall not be impaired by reason of such execution in multiple counterparts. This Agreement is to be governed according to the laws of the State of California. In the event of action, suit, proceeding or arbitration to enforce any term of this Agreement, the prevailing party shall be entitled to recover from the non-prevailing party, as determined by the court or arbitrator, all of the prevailing party's costs and expenses, including without limitation attorneys' fees and expert witness fees, incurred by the prevailing party in connection therewith. If Junior Lienholder or any affiliate of Junior Lienholder shall acquire, by indemnification, subrogation or otherwise, any lien, estate, right or other interest in the Property, that lien, estate, right or other interest shall be subordinate to the Senior Deed of Trust and the other Senior Loan Documents as provided herein, and Junior Lienholder hereby waives, on behalf of itself and such affiliate, until all amounts owed under the Senior Loan Documents have been indefeasibly paid in full and all Senior Lienholder's obligations to extend credit under the Senior Loan Documents have terminated, the right to exercise any and all such rights it may acquire by indemnification, subrogation or otherwise. The Agreement shall inure to the benefit of, and the binding upon, the parties hereto and the respective successors and assigns.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date and year first above written.

NOTICE: THIS SUBORDINATION AGREEMENT CONTAINS A PROVISION WHICH MAY ALLOW THE PERSON OBLIGATED ON YOUR REAL PROPERTY SECURITY TO OBTAIN A LOAN A PORTION OF WHICH MAY BE EXPENDED FOR OTHER PURPOSES THAN IMPROVEMENT OF THE PROPERTY.

JUNIOR LIENHOLDER:

REDEVELOPMENT AGENCY OF THE CITY OF
MILPITAS,
a public body, corporate and politic

By: _____
Name: _____
Executive Director

ATTEST:

By: _____
Agency Secretary

APPROVED AS TO FORM:

By: _____
Agency Counsel

OWNER:

MP MILPITAS AFFORDABLE HOUSING
ASSOCIATES,
A CALIFORNIA LIMITED PARTNERSHIP

By: MP Milpitas Affordable Housing LLC,
a California limited liability company,
its general partner

By: Mid-Peninsula Scotts Valley, Inc.,
a California nonprofit public benefit
corporation,
its sole member

By: _____
Fran Wagstaff
Assistant Secretary

SENIOR LIENHOLDER:

U.S. BANK NATIONAL ASSOCIATION,
a national banking association, as Agent under the
Master Agency Agreement dated August 1, 2006
between Issuer and Agent

By: _____
Donna M. Kelley,
Vice President

STATE OF CALIFORNIA)

) ss.

COUNTY OF _____)

On _____, 2006 before me, _____, Notary Public in and for said State and County, personally appeared _____ personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____ (Seal)

STATE OF CALIFORNIA)

) ss.

COUNTY OF _____)

On _____, 2006 before me, _____, Notary Public in and for said State and County, personally appeared _____ personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____ (Seal)

STATE OF CALIFORNIA)

) ss.

COUNTY OF _____)

On _____, 2006 before me, _____, Notary Public in and for said State and County, personally appeared _____ personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____ (Seal)

STATE OF CALIFORNIA)

) ss.

COUNTY OF _____)

On _____, 2006 before me, _____, Notary Public in and for said State and County, personally appeared _____ personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____ (Seal)

EXHIBIT "A"

Legal Description

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE CITY OF MILPITAS,
COUNTY OF SANTA CLARA, STATE OF CALIFORNIA, AND IS DESCRIBED AS
FOLLOWS:

Exhibit "A"

EXHIBIT "B"

Junior Obligation Documents

1. That certain Loan and Grant Agreement dated as of December 5, 2005, executed by and between Junior Lienholder and Owner, pursuant to which Junior Lienholder agrees to make a loan to Owner ("Junior Loan") in the maximum principal amount of \$14,600,000.

2. That certain Secured Promissory Note ("Senior Note") dated as of _____, 2006, executed by Owner for the benefit of Junior Lienholder in the face principal amount of \$14,600,000.

3. That certain Deed of Trust (as amended from time to time, the "Junior Deed of Trust") dated as of _____, 2006, executed by Owner in favor of Junior Lienholder, encumbering Owner's right, title and interest in the Property, to be recorded in the Official Records substantially concurrently herewith.

4. That certain Affordable Housing Regulatory Agreement and Declaration of Restrictive Covenants dated as of _____, 2006 ("Junior Affordable Housing Agreement"), executed by and between Junior Lienholder and Owner, to be recorded in the Official Records substantially concurrently herewith.

5. Paragraphs 1 through 4, inclusive, and 6 through 13, inclusive of that certain Grant Deed dated as of _____, 200_, executed by Junior Lienholder and Owner, to be recorded in the Official Records substantially concurrently herewith.